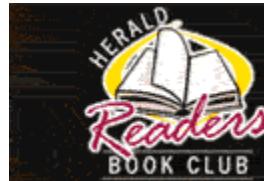




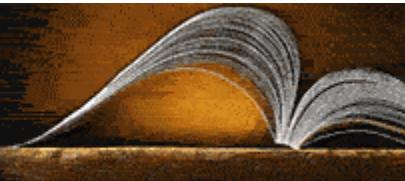
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Phase II payments top concern to farmers, ag official says

Associated Press

LEXINGTON, Ky. - Some lawmakers are talking about using state money from the 1998 tobacco settlement to cover payments due farmers in 2004, the head of the governor's office of agricultural policy said.

Kentucky farmers and owners of tobacco quota had counted on Phase II payments of about \$124 million at the end of 2004. But they haven't received any money because North Carolina Judge Ben Tennille ruled that tobacco companies don't have to make the last of the payments, which are being halted under a federal buyout.

"This is something that's going to be a serious topic of discussion during the short session," said Keith Rogers, executive director of the agricultural policy office.



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The legislature was beginning a 30-day session Tuesday.

Kentucky law requires the state to cover so-called Phase II payments from tobacco companies if they fall short of \$114 million a year. The difference is to be paid from the half of the state's master settlement money used to help farmers find alternatives to tobacco.

But that pool of money, also known as Phase I, would not come close to covering the potential deficit resulting from a North Carolina judge's ruling last month.

Kentucky and six other states have appealed the ruling. Rogers said farmers could know this week how long the appeals process will take.

Meanwhile, Rogers said the Phase II situation is one of Kentucky farmers' top concerns.

"Anytime that you take \$124 million out of Kentucky's agricultural economy, it's going to hurt," Rogers said. "It's going to hurt big, and it's going to hurt broad and wide. It's going to hurt individuals, some worse than others."

Tim Perry, who raises tobacco in Shelby County with his uncle, said he's counting on \$6,000 in Phase II payments for 2004. Perry plans to continue growing leaf after the buyout and recently spent \$45,000 to build a barn to house tobacco.

"That would make my barn payment," he said. "That would make my lease payment."

Tobacco companies and 14 states reached a settlement in 1999 to compensate farmers for losses they would incur because of higher cigarette prices.

Under the 1998 master settlement, tobacco companies settled lawsuits with dozens of states over smoking-related health costs and agreed to make payments to the states over 25 years.

In Kentucky, half of the payments go to the Agricultural Development Fund's efforts to diversify away from tobacco. Since the fund's inception in 2001, more than 1,900 projects have received more than \$167 million in Phase I funding.

Rogers said the fund receives about \$54 million a year, with about \$20 million earmarked for projects by the General Assembly. That leaves about \$34 million a year that could be used to cover a possible Phase II deficit.

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One proposal that's been mentioned is issuing bonds to cover any such shortfall, said Rep. Jim Wayne, D-Louisville. But Wayne hopes that the tobacco states will win their appeal of the North Carolina ruling, and the legislature won't have to get involved.

"I think what we'll be looking at when we do a lot of work on the budget in January is whether the statute actually requires the payment of Phase I money: If it does - how we're going to handle that, if it doesn't - whether it's still an issue or not," said Rep. Harry Moberly, D-Richmond, the House budget committee chairman.

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